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SUBJECT: OMAN: TELECOMS UPDATE

1. (U) Summary: A series of local press reports in mid-April outlined three noteworthy developments in Oman's telecommunications sector. The launching of the Falcon submarine cable project will transform Oman into a regional hub for broadband and advanced telecom services. The project will connect Oman to GCC countries, India, Egypt, and onward to the rest of the world. A separate announcement April 13 heralded a new Royal Decree stipulating an increase of state-owned Omantel's capital to USD 195 million. Finally, a Chinese telecoms firm April 18 signed a lucrative contract with Omantel to extend a wireless local loop to rural and remote areas in Oman. End Summary.

Falcon Lands in Oman

2. (U) On April 12, Minister of Transport and Communications Mohammad bin Abdullah al-Harthi officially launched the Falcon submarine cable project in Oman. The Falcon project is a new high-capacity resilient loop cable system with multiple landings throughout the Gulf region. Its submarine links will stretch from the Middle East and Egypt in the west to India in the east. The investment, estimated at hundreds of millions of dollars, is promoted by FLAG Telecom, an international wholesale communication services firm. State-owned Omantel is investing in the project under a 15-year contract that grants it capacity rights along with the ability to plug into the system for high-speed connectivity and broadband services. Two landing stations reportedly will be built in Oman.

Another Step Toward Omantel's IPO

3. (U) A Royal Decree issued April 12, 2005 increased state-owned Omantel's capital to USD 195 million, retroactive to December 31, 2003. Article Two of the Decree stipulates that the company "may" be transferred into a joint stock company according to the provisions of the Commercial Companies Law. Determination of the company's rules and procedures for forming its board, as well as other provisions mentioned in its articles of association, are subject to decisions to be made at its general meeting. According to the decree, the Council of Ministers shall regulate the percentages, terms and procedures to sell or offer to the public any part of the government-held shares in Omantel's capital, specifying their nominal value, and determining parties or persons who may buy or subscribe. Such rules will be exempted from the Commercial Companies Law, Capital Market Laws and Privatization Laws.

Chinese Entry in Rural Telecoms

4. (U) Local newspapers carried front-page coverage on April 19 of a deal signed between the Ministry of Transport and Communications and Chinese telecoms firm Huawei to develop Wireless Local Loop (WLL) services in rural and remote areas in Oman. The initial WLL rollout will cover 200 villages, with an expansion to 450 villages envisioned in the future. The contract, valued at roughly \$8.7 million, is touted as part of Omantel's commitment to extend telephony across the entire Sultanate. Press reports indicated that the WLL service is based on CDMA2000 technology at 450 megahertz, and the system will provide voice, low-speed data, fax, and Internet services.

Comment

5. (SBU) Telecommunications remains one of Oman's last privatization frontiers, and these recent developments largely aim to bolster Omantel's services in advance of its expected IPO this summer. While the new Royal Decree opens

the road to this long-awaited partial privatization of Omantel, two points are worth highlighting: the first is that any public sale of Omantel's shares will be exempted from the commercial companies, capital market, and privatization laws, further indication that the telecommunications giant will be treated as an exceptional case in the Omani economy. The second is that projects like Falcon and the WLL initiative give a future exclusive competitive advantage to Omantel at a time when the Sultanate is supposedly opening the doors to competition and the free market. We will watch Omantel's actions very carefully, particularly in light of the free trade agreement negotiations underway, where telecoms remains a sticky issue.

BALTIMORE